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REVIEW OF POLICY IMPLICATIONS OF CHANGE AND NON-CORE FUNDING

Report of the Administrator

SUMMARY

The present report represents a policy framework for activities funded by non-core resources. While core resources remain the bedrock of UNDP activities - and the primary focus of resource mobilization efforts - non-core resources have proven to be vital in ensuring greater predictability of funding and impact within the sustainable human development (SHD) framework. This impact is ensured through the substantive alignment of all UNDP supported activities, regardless of funding source. UNDP 2001 gives priority to strengthening the capacity of UNDP country offices to respond and provide quality support to programme countries. This support will enable Governments to make effective use of resources mobilized for SHD and functions as a catalyst in the use of national execution as the preferred modality for execution of programmes and projects supported by UNDP. The report also examines the methodology for covering the costs of non-core support provided by UNDP.

The Administrator seeks the Executive Board's endorsement of the policy directions taken and suggested in the present document.

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I. PURPOSE AND INTRODUCTION

1. The relevance of UNDP tomorrow requires the continued support of the Executive Board today for the ongoing changes at the country level. The Administrator looks forward to the guidance and wholehearted support needed from the Executive Board for UNDP to remain in a position to meet new challenges in a changing development environment. Unless the challenges outlined in the present paper are met, UNDP will be unable to maintain its global networking role or support the country-owned programmes and ideas that are the foundation of its work and identity.

2. In its decisions 96/44 and 97/15, the Executive Board requested the Administrator to report to the Board on

(a) "... the whole modality of non-core resources from donor countries in relation to their financial management, focusing on their cost effect on core resources and ... to pursue efforts to ensure the substantive alignment of all non-core resources with the mandate and areas of focus of the organization ... and to define the role of the Board in this process (decision 96/44);

(b) "... an analysis of the implications resulting from the change management process on the future policy direction of the United Nations Development Programme (inter alia, the role of the Programme in implementing programmes and projects, national execution and resource mobilization at the field level)" (decision 97/15).

3. In the present report, the Administrator responds to these requests, and engages the Executive Board in a debate on related policy issues. The year 1998 promises to be another defining year in the dynamic process of change, one in which UNDP funding, focus, and review of programme arrangements will be on the Board's agenda. It is the intention of the Administrator, therefore, that a coherent policy review by the Executive Board of these central issues be facilitated through the present report and others (most notably DP/1997/16/Add.7, DP/1997/CRP.23, DP/1998/5 and reports to be submitted during 1998 on the review of the new programming arrangements and the budget review).

II. DEFINING THE ROLE OF UNDP THROUGH CHANGE

4. Since its inception, the Governing Council and the Executive Board have led important changes in the UNDP policy framework. Indeed, Governing Council and Executive Board legislation on national execution, support cost arrangements, management service agreements, initiatives for change, programming arrangements, and change management has had a cumulative effect in determining a changing role for UNDP. The key achievements of this partnership include the adoption of sustainable human development (SHD) as the overriding mandate for UNDP, the promotion of country ownership through national execution, the use of the programme approach, the establishment of new programming arrangements and the emergence of a leaner and more accountable UNDP. These policy changes have resulted in a more dynamic, relevant and substantive UNDP at the country level.

5. UNDP 2001 aims to improve the ability of UNDP to provide responsive, quick, and high quality support to programme countries and to improve its knowledge base and programme policies through capturing lessons learned at the country level. This will be achieved through delegation of authority and by locating resources close to the point of action; simplifying procedures; introducing ex-post accountability structures; developing new partnerships and strengthening those already existing and mobilizing additional resources to meet national priorities.

A. From technical assistance to development cooperation

6. The key constant in change is that UNDP activities are country driven and anchored in national development priorities. This is the basis for the country cooperation framework (CCF), which also takes into account a variety of elements, including the outcomes of United Nations conferences and legislation adopted by the intergovernmental bodies of the United Nations; the strength and assets of UNDP at the country level (its "comparative advantage"); complementarity with other development partners; and availability of resources.

7. UNDP has adapted to changing country circumstances and the changing environment for development cooperation. The UNDP technical assistance approach of the 1960s and 1970s was based on technology and know-how transfers from developed to developing countries, sectoral project focus, advance allocation of core resources, and execution and implementation by United Nations specialized agencies. The UNDP development cooperation approach of today is characterized by multisectoral interventions; greater coordination of efforts under national leadership; national ownership; expanded use of national expertise; involvement of beneficiaries; greater focus on results and impact; ensuring sustainability through capacity development and strategies to reduce dependence on external assistance; and optimal use of all funding opportunities available to programme countries.

8. UNDP country offices have been at the forefront of this change, helping UNDP to identify where adjustments needed to be made to ensure continued relevance at the country level. The UNDP country presence has enabled the organization to play a key role in emerging forms of development cooperation and has supported the formation of new development partnerships. (See, for example, Assessment of UNDP (Centre for Development Research, Copenhagen, February 1996)). During this period, the Executive Board has consistently affirmed that the strengths and assets of UNDP remain its country presence. Accordingly, the Board has actively protected the field infrastructure during three successive budget cuts, supported decentralization and has expanded the UNDP country office network through the establishment of new offices.

B. New development partnerships

9. The relationship between UNDP and programme countries is changing from one of donor-recipient to one of expanded partnership. Governments no longer look to UNDP simply as a funder of technical assistance but as a partner and facilitator in identifying, articulating, and responding to development needs.

UNDP puts its global network of human and intellectual resources and lessons learned at the disposal of national development efforts. In addition, UNDP helps to mobilize funds in support of programme country development priorities from all available sources. UNDP helps to strengthen national capacities, thereby contributing to the broader coordination of external assistance within a common framework of national priorities. This role is particularly crucial in least developed countries (LDCs) and low-income countries, where capacities to access and manage external funding are limited. Combined with the in-country presence of UNDP and networking, these expanded partnerships form the basis for deepening trust between UNDP and programme country Governments.

10. This trust is essential for UNDP to play a role in areas where there is a growing demand for an impartial partner and development adviser, particularly in sensitive areas of governance, structural adjustment and various transition processes, including transitions from crisis to recovery and rehabilitation; and economic, social and political transition. UNDP now has a proven track record in these processes. The credibility and capabilities of its country offices and staff have been essential factors in these achievements.

11. The relationship between UNDP and other United Nations organizations and international financial institutions (IFIs) is changing, characterized by greater coordination (the Secretary-General has reaffirmed the role of UNDP as funder and manager of the United Nations resident coordinator system) collaboration and strategic alliances based on a clearer division of labour and often entailing parallel financing or co-financing of activities for greater impact and effectiveness. The United Nations reform process and the introduction of the United Nations Development Assistance Framework (UNDAF), which will provide a common programming framework for the United Nations system, are taking this shift further. UNDP and the specialized agencies are moving away from traditional tripartite arrangements to new arrangements involving multiple partners in nationally owned and country-driven programmes. In-country partnerships between UNDP and IFIs, in particular the World Bank, increasingly involve common assessments, evaluations, collaboration in coordination and programme implementation by improving loan performance. It is noteworthy in this context that the IFIs value the role of UNDP in enabling the rate of disbursement of their loans to be increased and that, based on experience to date, the World Bank has called on UNDP to explore ways of replicating this form of collaboration in various types of programme countries in the different regions.

12. The relationship between UNDP and bilateral donors is changing. Partnerships on the ground are growing through substantive collaboration and co-financing. Greater convergence of policies and agendas has been accompanied by co-funding of activities. Several donors have sought greater voice, recognition, visibility, accountability and ownership through non-core funding. Co-financing with UNDP has enabled donors to take advantage of the UNDP in-country experience and presence, both to minimize costs and support sensitive interventions while reducing risks associated with implementation. Through co-financing, new development approaches have been tested before they are mainstreamed into programmes. This partnership has facilitated the pooling of resources in support of national priorities and programmes.

C. Conclusion and policy issues

13. The Administrator draws the attention of the Executive Board to the fact that UNDP, supported by its governing body, has moved beyond simply funding and coordinating technical assistance to being a full development cooperation partner. With the support of the Executive Board, UNDP has maintained its global network, supported effective advocacy and sponsored programmes that give expression to its new substantive identity. What UNDP is today and how it operates has evolved through a dynamic and creative merging of legislation, demand, experience and global vision. Innovation and change has been spearheaded by country offices developing workable approaches to resource mobilization and national execution through strong partnerships.

14. Much enabling legislation has already been provided by the Executive Board to allow UNDP to maximize the benefits of its new role in development cooperation and the emerging partnerships. UNDP 2001 addresses the remaining limitations or gaps in UNDP policies and procedures that inhibit effective and high quality impact in UNDP activities. The Administrator seeks the support of the Executive Board in this process.

III. DIVERSIFICATION OF FUNDING

A. Funding trends and modalities

15. Consecutive programming cycles and the UNDP administrative budgets have been based on assumptions about the overall size of UNDP core resources. Regrettably, expectations of total level of core resources have seldom been met. Despite the fact that legislation has consistently emphasized the importance of core resources (most recently reiterated in Executive Board decision 95/23 and 97/17). UNDP core resources declined from $1,078 million in 1992 to $848 million in 1996. (See also DP/1997/CRP.23: "Towards a sustainable funding strategy for UNDP", which is to be discussed in conjunction with the present report.) Total core contributions for 1997 are expected to decrease even further.

16. Non-core funding refers to all resources managed by UNDP received in support of a particular earmarked purpose. Total non-core contributions grew between 1992 and 1996 from $378 million to $1,295 million. The total non-core resources for 1997 are expected to reach $1,500 million. In 1996, approximately 38 per cent of non-core resources were provided by traditional donors and 62 per cent were provided by programme country Governments.

Table 1. Contributions to UNDP by source of funds, 1992-1996[a]
(In millions of United States dollars)

	1992	1993	1994	1995	1996
Trust funds	106	73	279	212	292
Third-party cost-sharing	103	103	102	81	163
Government cost-sharing	169	281	445	541	840
Total non-core	378	457	826	834	1 295
UNDP core	1 078	908	917	927	848

[a] Additional statistical information about the growth of different non-core funding modalities is provided in annex III.

17. Among the member countries of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD/DAC) in general, there is no direct relationship between the level of core resources and the level of non-core resources contributed to UNDP and therefore no causal relationship between the decline in core contributions and the increase in non-core contributions. Those countries that have increased their non-core contributions in the most recent years have also, generally speaking, maintained the levels of their core contributions. Conversely, countries that have reduced their core contributions during the most recent years have not significantly increased non-core contributions.

18. UNDP offers its partners several modalities to administer non-core funding. The main modalities, which are focused on in this review, include trust funds and third-party cost-sharing and government cost-sharing. (Non-core funding also includes UNDP-administered funds (e.g., UNCDF, UNIFEM, UNSO), MSAs and funding from non-governmental sources, none of which will be reviewed in any detail in the present paper.) Under cost-sharing, contributions are made directly to UNDP-supported programme or project activities. These resources are administered by UNDP and fully integrated into UNDP accounts. Under trust funds, donors typically place their contributions in trust with UNDP in support of specific thematically or geographically defined purposes. UNDP administers the funds on behalf of each contributing donor and each trust fund is individually accounted for by UNDP. As part of UNDP 2001 and as a follow-up to the 1996 evaluation of non-core funded activities, Building Development Partnerships through Co-financing (UNDP/Office of Evaluation and Strategic Planning (OESP), 1996), UNDP is in the process of developing new, simpler and decentralized instruments for co-financing. This will facilitate closer integration of the various sources of funding into country-level programming.

19. Government cost-sharing represents the largest area of growth in non-core funding over the past five years, mainly from Latin American countries. Government cost-sharing is the modality through which a programme country Government contributes financial resources to programme activities within the

CCF. These contributions can come from the Government's own budgetary resources or from IFI loans. The case study on Brazil presented in the addendum to the present document (DP/1998/3/Add.1) is an illustration of this modality. During the fifth country programme for Brazil (1992-1996), some 55 per cent of cost-sharing came from the Government's own budget, and 45 per cent was derived from the proceeds of World Bank or Inter-American Development Bank loans. Government cost-sharing is an important manifestation of the new patterns of partnership between UNDP, programme countries and, increasingly, with the World Bank. It also evidences growing ownership by developing countries of programme activities in support of SHD.

20. Other areas of significant non-core growth include:

(a) Non-core funding channelled through trust funds managed or co-managed at UNDP headquarters in support of global and regional priorities and themes, such as environment, poverty and governance programmes (e.g., Capacity 21, Montreal Protocol, Global Environment Facility (GEF), Poverty Strategies Initiative (PSI));

(b) Non-core funding in support of countries in special circumstances, notably in countries such as Angola, Bosnia and Herzegovina, Cambodia, Guatemala, Mozambique and Rwanda and the Programme of Assistance to the Palestinian People (PAPP). In these cases, both the trust fund and third-party cost-sharing modalities have been widely used.

21. As shown in table 2, all regions have benefited from the growth in non-core funding. However, significant variations in the relative composition of core and non-core funding exist between regions, reflecting the large variations between countries. It should also be noted that a large share of the non-core resources are related to a limited number of countries and specific themes.

22. Future growth in non-core resources, which would ensure that a larger number of countries can benefit, in particular least developed countries and low-income countries, will depend on the development of new partnership relations, as described above, and country-specific resource mobilization strategies.

Table 2. Percentage of total resources spent during 1994-1996, by modality and region

Regional / Other expenditure	Core	Third party cost-sharing	Government cost-sharing	Trust funds	Remarks
Africa	74	7	2	17	62 per cent of non-core funding relates to GEF, Montreal Protocol, Mozambique and Rwanda
Asia and the Pacific	80	5	4	11	60 per cent of non-core funding relates to GEF, Montreal Protocol and Cambodia
Arab States	56	6	30	8	60 per cent of non-core funding relates to GEF, Montreal Protocol and government cost-sharing
Europe and the Commonwealth of Independent States	58	15	6	21	36 per cent of non-core funding relates to GEF and Montreal Protocol
Latin America and the Caribbean	8	4	83	6	75 per cent of non-core funding from top five contributors,[a] GEF and Montreal Protocol
Others	46	7	1	46	73 per cent of non-core funding relates to PAPP, GEF and Montreal Protocol
Percentage of total expenditure	43	6	38	13	

[a] Top five contributors are Argentina, Colombia, Brazil, Panama and Peru.

B. The UNDP role in resource mobilization

23. The primary objective of UNDP resource mobilization efforts remains the increase of core resources. New partnerships and demands have led UNDP to assist Governments to mobilize, coordinate and facilitate access to other resources to meet national development priorities and SHD goals, in keeping with current legislation (see annex I). This ensures country-specific approaches to resource mobilization (as recommended by the evaluation on Building Development Partnerships through Co-financing, UNDP/OESP, 1996) and provides for a critical mass of resources to maximize impact. At a time when core funding levels are in steep decline, causing uncertainty in programme planning, non-core resources are helping to ensure more predictable funding for high-priority SHD initiatives.

24. The main basis for country-level programming of all resources, regardless of the source, is to be found in Governing Council decision 90/14, in which the Administrator was encouraged to continue his efforts to develop additional non-core avenues to finance activities under an expanded country programme. In fact, the Governing Council recognized the importance of non-core resources for greater impact and mandated UNDP to use its core intellectual and management capacity at the country level to support the mobilization of non-core resources. The idea behind the expanded country programme has been integrated into the current programming period. Executive Board decisions 95/23 and 96/7 provide for the programming of all resources under the CCF, thereby allowing UNDP to support the development of programmes with a scope larger than that which can be covered by core funds.

25. As grant funding for development has become less entitlement-based and more thematic (GEF, Montreal Protocol, gender programmes etc.), accessing these funds has become more competitive. UNDP offices help countries to develop viable proposals that can compete for such funds, leading to more quality projects for donors and fund managers to choose from. The UNDP approach to mobilizing resources at the country level is grounded in the assumption that high-quality, focused programmes and projects serving key national objectives will merit additional donor support for activities within the SHD framework.

26. Co-financing through UNDP also allows donors to channel resources towards projects in countries where they lack local support capacity. Making use of UNDP administrative strength and infrastructure enables donors to benefit from existing field arrangements. This has clearly been the case in countries such as Cambodia, the Lao People's Democratic Republic and Rwanda. Donors can increase the impact of their own programmes by teaming up with UNDP. In addition, UNDP can offer donors the opportunity to support politically sensitive projects, as in the case of Guatemala, Latvia and Viet Nam.

27. Government cost-sharing with UNDP also offers several advantages to programme country Governments. They benefit from UNDP support to effective, in-country project conceptualization and formulation while using UNDP knowledge to accelerate national capacity-building. UNDP support can expedite project delivery and improve implementation by assisting the programme country Government in their efforts to utilize and manage existing resources more efficiently and in harmony with national development objectives. A further

important point is that UNDP support is sought to ensure transparent and accountable management of national development programmes.

C. Substantive alignment of all resources

28. As further emphasis has been placed on narrowing the substantive focus of UNDP (see DP/1998/5), UNDP programming tools have been adjusted to ensure that all activities supported by UNDP, irrespective of funding source, are defined within the parameters of the CCF, fall within the refined SHD mandate, and aim to build national capacities. As a result, the vast majority of UNDP activities today fall under the priority areas of poverty, sustainable livelihoods, environment, empowerment of women, and governance. Exceptions to this pattern have been seen, yet as the organization seeks to re-direct programming and internalize new criteria, a great degree of consistency has emerged.

29. There is a great deal of convergence between the priority areas financed from core and from non-core resources. Based on allocation information for 1994-1995, the thematic distribution of core resources shows that 39 per cent were allocated to poverty eradication and livelihoods for the poor, 32 per cent to governance, 21 per cent to environment and natural resource management, and 8 per cent to other areas. The allocation of all resources provided to UNDP for programming purposes (core and non-core) shows almost the same picture, with 31 per cent to poverty eradication and livelihoods, 39 per cent to governance, 24 per cent to environment, and 6 per cent to other areas.

30. Through the adoption of the successor programming arrangements in its decision 95/23, the Executive Board gave additional impetus to the integrated programming of core and non-core resources.

31. The pattern outlined above is confirmed and reinforced by the analysis of the first 40 programme outlines approved to date under the successor programming arrangements (26 countries rank as middle-income countries). In full adherence to Executive Board decision 95/23, greater priority is given to poverty eradication. In fact, 44 per cent of total resources and 60 per cent of core resources allocated to date support anti-poverty programmes. The existence of a wide range of different non-core funding sources in the area of environment and governance has allowed countries to focus core resources even more sharply on poverty.

D. Conclusions and policy issues

32. The Administrator reaffirms that the primary objective of UNDP resource mobilization efforts is to ensure a more predictable, continuous and assured basis for core resources. With a declining core, threatening the ratio between administrative and programme costs and a volatile debate about the merits of providing technical cooperation to certain categories of developing countries, the mission of UNDP as the centrepiece of the United Nations global presence is under enormous pressure. The Administrator seeks advice of the Executive Board on how to close the gap between support for UNDP policy directions and the current level of core funding.

33. The Administrator wishes to ensure that programme countries can take full advantage of a variety of funding opportunities to support national SHD priorities. The growth in non-core funding is firmly anchored in legislation and is demand-driven. Moreover, while every effort must be made to stabilize and reverse declining core contributions, the current trend presents a new challenge, which demands new thinking from UNDP and its partners. The thrust of UNDP 2001 is precisely to deal with the implications of this new reality in ways that enhance the capacity and means of UNDP to deliver the new UNDP mandate. The Administrator therefore requests the Executive Board to continue to support UNDP policy for non-core resource mobilization as outlined above.

34. The Administrator stresses that all measures will be taken to ensure that all resources programmed by UNDP, whether core or non-core, will be programmed within the SHD frameworks and CCFs approved by the Executive Board.

35. Maintaining the multilateral character of UNDP and the integrity of the intergovernmental process is a special challenge in light of the growth of non-core resources. Recent years have seen improved Executive Board ownership and oversight of non-core resources. The recent integration of the various streams of UNDP funding (core, trust funds, cost-sharing) both in reporting to the Board and at the internal management level has strengthened further financial management and oversight. The CCF itself provides a key instrument for substantive oversight inasmuch as both core and non-core resources are programmed within mandated goals and focus areas accessible to the Board. The Administrator intends to ensure that the triennial reviews of CCFs are sufficiently rigorous to enable the Board to perform its monitoring and oversight role and to review the interrelated nature of core and non-core resources and their impact. The Executive Board may wish to make specific suggestions on its role in the oversight of UNDP-supported activities at the country level as well as on the governance of non-core-funded activities.

IV. NATIONAL EXECUTION AND IMPLEMENTATION

A. Execution and implementation modalities

36. Development impact and results are highly dependent on execution and implementation arrangements. Effective, efficient and accountable management of programmes and projects has therefore been at the centre of the development of strong partnerships at the country level.

37. National execution was first introduced for UNDP activities by the Governing Council in 1976 and has since been established as the preferred modality for execution of United Nations-funded development activities. Relevant legislation includes: General Assembly resolutions 44/211, 47/199, 50/120 and Governing Council/Executive Board decisions 76/57, 90/20, 91/21, 91/27, 92/22, 93/25 (see also DP/1997/CRP.8). UNDP has therefore vigorously promoted the application of national execution, which has increased as a result: between 1994 and 1996, national execution increased by 33 per cent. With regard to the UNDP General Fund (UNDP account), which includes core funding as well as cost-sharing, national execution increased by 54 per cent from 1994-1996. During the same period, UNOPS execution of UNDP activities increased by

19 per cent while the share for the five large United Nations specialized agencies decreased by 47 per cent. With regard to funds and trust funds administered by UNDP, national execution increased during the same period by 23 per cent and UNOPS execution increased by 60 per cent.

38. National execution attributes management responsibilities to national entities in order to ensure a sustainable increase in the capacity, self-reliance and national ownership of development activities. Therefore, national execution is often the key to success when pursuing policy dialogue, national capacity-building, access to national expertise within and outside the Government, sustainable impact in sensitive areas relating to governance and transition processes, commitment and political decision-making.

39. The conclusions from the evaluation contained in National Execution: Promise and Challenges (UNDP/OESP, 1995), indicate that national execution develops national capacity through expanding the sense of ownership, learning by doing, and greater management responsibility and decision-making by national staff; nevertheless programmes and projects will succeed in developing national capacity through the goals, targets and activities of the project itself and not merely because they are nationally executed.

40. The evaluation also concluded that national execution as a concept and an operational modality has evolved considerably since its inception. Today, it accommodates a variety of arrangements reflecting new patterns of partnership between UNDP and national executing agents and different conditions in programme countries. In recent years for example, programme countries have increasingly sought UNDP support under national execution to help them to increase their absorptive capacity with regard to disbursing loans provided by multilateral financial institutions.

B. UNDP support for national execution and implementation

41. The UNDP country offices perform an important local support role to executing and implementing agents. UNDP has traditionally supported all types of executing and implementing agents: e.g., assisting in programme/project identification and design and support to the mobilization of inputs. UNDP support services to the United Nations system, based on its field infrastructure, will continue to be central to United Nations reform in connection with common services.

42. Countries have expressed different needs for UNDP local support to national execution, much of which is akin to that already provided to other executing agents. In some cases, UNDP involvement is limited to providing funds, monitoring and evaluation; in other cases, UNDP and the Government enter into a partnership where the Government takes full advantage of the UNDP country office presence and capacity to help to support their development process. This could include developing systems and procedures, training and capacity development, maintaining accounts, making payments, identifying consultants, recruiting on behalf of the Government, providing support to procurement, etc. while simultaneously building government capacities for carrying out these tasks.

43. Capacity development is a primary objective of national execution. However, capacity development can take place on several levels - from macro-policy formulation down to accounting systems and contracting services. In many countries, those capacities that are of strategic importance relate to policy and institutional development; long-term planning and management; legal reform; pro-poor growth investment strategies, etc. UNDP support services under national execution should never compromise national ownership of such strategic functions or the capacity to perform them. Investment in developing capacity to perform such non-strategic support functions as accounting, invoicing and contracting, may even be deferred to free resources for, and focus attention on, the development of strategic capabilities. This point was noted by the Governing Council in its decision 90/21, in which it agreed that national execution does not necessarily imply having capacity for implementing all aspects of the project.

44. National execution supported by UNDP has helped Governments to overcome structural inefficiencies in bureaucracies and has enhanced transparency, stability and accountability. It has often aided an important learning process through which Governments have acquired the confidence and capacity to change inefficient or unworkable procedures.

45. Under normal circumstances, UNDP country offices do not and should not carry out execution and/or implementation. (Rare exceptions have occurred, e.g., in Guatemala and Rwanda, when country offices are involved in direct execution, as mandated by Executive Board decision 94/28. Direct execution is under constant and close supervision and regular information will be submitted to the Executive Board thereon.) UNDP provides limited support to these activities while the overall management and responsibility for the achievement of programme/project objectives and expected outputs remains firmly with the national institutions. This is what distinguishes the role of UNDP from that of an executing or implementing agent. UNDP supports only the mobilization of inputs where the Government coordinating authority or the executing agent is unable to provide all necessary services. As an integral part of UNDP, the country offices also oversee the whole project cycle to ensure that projects are carried out within UNDP rules, regulations and procedures and policies. This substantive role is the foundation for exercising the Administrator's accountability at the country level.

46. In the case of national execution, local support has been mandated by the General Assembly in paragraph 18 of its resolution 47/199, in which it "stresses the urgent need for the United Nations system to give increased priority to assisting recipient countries in building and/or enhancing the capacity necessary to undertake national execution, including the provision of support services, as required, at the field level". In paragraph 1 (c) of its decision 90/26, the Governing Council decided that UNDP should "facilitate the further assumption by Governments of the management of United Nations-financed programmes and remove impediments to and provide incentives for national execution". UNDP country offices have adapted their support services under evolving circumstances and incremental legislation.

47. As was pointed out in the OESP evaluation of national execution, the primary risk involved in providing support to national execution is that its

main objective, capacity-building, may not be achieved and that dependency on external assistance increases rather than decreases. Any support provided must therefore clearly be accompanied by capacity-building measures as well as clearly defined exit strategies.

48. As shown by the case-studies in the addendum to the present document (DP/1998/3/Add.1), practices have helped to spur greater cooperation with multilateral and bilateral sources of funding in key sustainable development initiatives. They have enhanced the involvement of Governments in the active implementation of externally aided programmes and the participation of civil society organizations. Experience generally shows that the traditional concept of national execution has evolved, building on the strengths of the country offices and the partnerships with Government. The support services have been particularly important during transitional processes (structural adjustment processes, economic and institutional reform, etc.) and in UNDP support for governance. In these cases, relevant and swift response by the country offices is essential for the support of the timely delivery of programmes and projects.

49. UNDP is updating its national execution policies and guidelines, which will reflect all relevant legislation and the best practices from country experiences and will build on UNDP efforts to improve its methodology based on lessons learned and on evaluation. They will strengthen and clarify the role of UNDP and its accountability; clearly define the objectives of national execution and provide closer links with UNDP overall objectives, as recommended in the report of the Board of Auditors to the General Assembly at its fifty-first session (A/51/5/Add.1). These policies and procedures will be finalized and issued following the discussion of the present paper by the Executive Board.

50. Also, following recommendations made by the Board of Auditors, UNDP has developed a capacity checklist for mandatory use by country offices in the design phase of programmes and projects. This checklist covers standards for capacities in managerial, technical, financial and administrative areas. It will enable programme country Governments and UNDP to determine what capacities are needed; to address gaps or weaknesses in government capacities as well as UNDP country office capacities; to plan support for the development of such capacities and to decide what support is needed from the UNDP country office and other national and international entities, including United Nations specialized agencies and non-governmental organizations.

51. Finally, as part of its new accountability framework, currently being implemented, UNDP will ensure full financial accountability under national execution and provide the Executive Board with regular updates on the findings of its systematic and independent audits, evaluations and inspections and corrective measures taken in response to these findings.

C. Conclusions and policy issues

52. National execution represents a major change for all partners involved in the development process. Adjustments to policies and procedures have been made on the basis of experience gained and best practices. This is mirrored in successive legislation from the Executive Board aimed at refining enabling

decisions in the light of evolving practices. The support role of UNDP varies greatly from country to country. Flexibility is therefore required to respond adequately to different country circumstances. This must be an integral part of updated and adjusted policies and procedures to ensure efficiency effectiveness, accountability and transparency in UNDP operations.

53. The Administrator is seeking the support of the Executive Board for UNDP to continue providing support services for implementation within the following given parameters:

(a) Support will be provided only at the request of programme country Governments;

(b) Support will be provided only for activities within the CCF and the SHD framework;

(c) Support will be provided based on a thorough capacity assessment of the executing agent, particularly with regard to administrative and operational management capacity and to full accountability for UNDP funds;

(d) Support will be accompanied by appropriate capacity-building measures, including clear exit strategies to ensure that long-term capacity-building objectives are achieved;

(e) As part of the revision of the national execution procedures, appropriate instruments will be put in place to improve the monitoring of such services, including obligatory annexes to all project documents stating the nature and scope of such support as well as the functions and responsibilities of the parties involved. To this end, UNDP will also develop simple instruments outside the scope of programme or project documents;

(f) The nature of support will take into account services that can be provided by United Nations specialized agencies or other relevant execution or implementing agents.

54. In line with the conclusions in paragraph 35 above, the Administrator intends to ensure that the triennial reviews of CCFs are sufficiently rigorous to enable the Executive Board to perform its monitoring and oversight role, including with respect to UNDP support to national execution and implementation.

V. NON-CORE MANAGEMENT AND COSTS

A. Financial management of non-core activities

55. Overall non-core activities are managed as an integral part of UNDP activities. UNDP Financial Regulations and Rules and the various procedures and manuals cover the management of both core and non-core activities. In the management of corporate functions such as human resources, administrative budget, financial monitoring, treasury functions, accounting and audit, UNDP has now almost fully incorporated non-core activities. In some areas, such as financial information systems, where many ad hoc systems have been put in place,

UNDP is currently developing new integrated systems covering both core and non-core resources.

56. The management of cost-sharing activities is in the process of being fully decentralized to the country level, and it therefore falls increasingly under the direct management of the Resident Representative. Only a limited number of cost-shared activities are managed from headquarters. Cost-sharing is reported on in the audited UNDP financial statements. Trust funds are approved by the Associate Administrator and managed by designated trust fund managers, who may be Resident Representatives or headquarters staff. UNDP reports annually to the Executive Board on trust funds in the context of the annual review of the financial situation. Some trust funds such as the environmental trust funds managed by the Sustainable Energy and Environment Division in the new Bureau for Development Policy (GEF, Montreal Protocol, etc.) have their own administrative structure and separate reporting.

57. UNDP prepares separate financial and substantive reports to co-financing partners. This reporting to donors has in some cases not been timely or complete. UNDP intends to improve its performance in this regard.

58. The Administrator is developing approaches relating to liquidity and risk management specific to non-core activities. These will be presented to the Executive Board in the context of the annual financial review for 1997 at the third regular session of the Executive Board in 1998.

B. Costs associated with UNDP support to non-core activities

59. UNDP provides a wide range of programme support as well as management and administrative support to activities that are not financed from the UNDP core resources. This support is provided both to other entities in the United Nations system and to co-financing partners; in both cases, UNDP is reimbursed for costs associated with providing such support. As reflected in the budget estimates for the biennium 1998-1999 (DP/1997/23), these reimbursements amount to an estimated $127.2 million for the period 1998-1999, of which $24 million will come from other United Nations entities and $103.2 million from co-financing partners.

60. As mentioned in paragraphs 18 to 22, UNDP modalities and arrangements vary depending on the nature of the activities (e.g., one-time large trust-fund activities in Mozambique, Cambodia and El Salvador in the context of peace-building initiatives), among regions (e.g., government cost-sharing in the Latin American and Caribbean region), and the nature of programmes (e.g., GEF and PAPP). This must be taken into account when reviewing aggregate information on programme expenditure and related support costs.

61. With regard to the financing of support costs relating to non-core activities, three categories of costs exists: (a) administrative and operational support costs directly associated with the implementation of projects and programmes themselves (charged to and accounted for under those projects/programmes); (b) government counterpart costs, including those in connection with national execution (borne by programme countries themselves);

and (c) the additional costs to UNDP itself associated with the general administration of the contributions and related programme activities (e.g., in country offices, regional bureaux and headquarters central services in the areas of finance, resource management and human resources).

62. The general approach towards covering the costs to UNDP itself (category c) has developed over time and account has been taken of a number of principles and policy directions provided by the Governing Council and Executive Board (see annex I). These decisions established the principle that UNDP core intellectual and management capacity can be made available to support non-core activities and that, by extension, cost recovery would take place on the basis of an assessment of additional costs over and above what is provided for through the core budget. The mechanisms for cost-recovery are further outlined in annex II to the present document.

63. The extent to which the costs recovered adequately meet additional workload and associated costs is under continuous review. Two elements ensure that this review is kept current and meaningful. In the first place, core capacities financed from the regular budget are established independently of the amount of cost-sharing and/or trust fund resources being managed. Secondly, those responsible for the performance of UNDP in managing non-core resources (resident representatives or designated funds managers) are also responsible for reviewing additional workload and setting fees. This decentralized approach, within well-established corporate policies and procedures, establishes a direct link between performance and the amount of resources available to cover the workload.

64. Against this background, the Administrator believes that the principles established and approaches followed are sound and that, at the aggregate level, costs associated with providing support for non-core activities are recovered. All indications show that in the case of country offices and regional bureaux the overall additional workload and incremental costs are in general adequately covered. In the case of some small or complex activities, the fee levels applied may, however, not fully cover costs.

65. A number of country offices have experienced an increased workload associated with global and interregional activities funded by non-core resources. Country offices are currently not allocated a share of the income from managing these funds. The share of income allocated to central administrative services (finance, human resources, audit and evaluation) is likewise not entirely adequate to cover the significant extra workload associated with the increase in the number of trust funds and the growth in non-core-funded projects. The Administrator has therefore decided to modify the internal guidelines for allocating income from non-core resources.

66. Special interest has been expressed in the cost-recovery of support provided for government cost-sharing activities. Table 2 shows that a very considerable part of cost-sharing contributions comes from programme countries themselves, in particular in the Latin America and the Caribbean region. Table 3 below shows that staff resources for this region, financed from core budget resources have declined since 1992-1993 by 19 per cent. This is in line with the approach whereby staff resources are assigned to country offices independently of the amount of cost-sharing resources being managed and reflects

the shrinking core available for these countries. During the same period, staff funded from costs recovered from cost-sharing programmes and other income increased by 73 per cent.

Table 3. Number of staff in the Latin America and the Caribbean region

Biennium 1992-1993	Total number of staff	
	Regular resources	Other resources
1992-1993	501	193
1994-1995	426	291
1996-1997	418	336
1998-1999	404	334

67. In view of the special nature of government cost-sharing, it is appropriate to review the adequacy of cost coverage for additional workload also in the context of all contributions that Governments make towards the costs of local offices, i.e., including the reimbursement of office costs covered by the core budget. The extent to which countries contribute towards the costs of offices is determined by parameters and conditions set by the Executive Board (most recently in its decision 96/41) in the context of government local office costs (GLOC). Depending on per capita gross national product (GNP) countries cover an increasing part of local offices costs.

68. In the case of the Latin America and the Caribbean region, the actual cost of country offices (adjusted for support that relates to the operational activities of the United Nations system in general) and the Regional Bureau combined is estimated at $84.2 million for the 1998-1999 biennium. The amount that is estimated to be a direct charge to the UNDP core budget is, however, only $33.3 million or less than 40 per cent. The difference is financed by Governments themselves through GLOC ($14 million) or from the fees that are charged to cost-sharing and trust-fund contributions ($36.9 million).

69. Similar considerations apply to government cost-sharing contributions by net contributor countries in the Arab States region. The actual cost of offices in these countries (adjusted for support that relates to the operational activities of the United Nations system in general) is estimated at $11.3 million for the 1998-1999 biennium. The amount that will be charged to UNDP core budget is, however, less than $1 million or less than 10 per cent. The difference is financed through GLOC ($5 million) or from the fees that are charged to cost-sharing and trust-fund contributions ($5.8 million). In the case of other regions, the UNDP share of the actual office costs are: Africa: 80 per cent; Asia and Pacific: 79 per cent; Europe and the Commonwealth of Independent States: 72 per cent. These percentages are decreasing over time with the increase in non-core funding.

C. Conclusions and policy issues

70. The Administrator is committed to improving reporting to donors on non-core contributions. He will also review with donors how their individual reporting requirements can be met through a more streamlined and standardized approach.

71. The Administrator believes that satisfactory arrangements are in place to ensure that at the aggregate level UNDP is reimbursed for costs associated with providing support to non-core activities. The Administrator has decided to make certain adjustments with regard to the allocation within UNDP of income from such support. He also intends to encourage country offices to increase fees charged for those small or complex projects that require additional support.

72. Clearly, the assumption that costs should be recovered for additional, incremental costs, is based on the premise that UNDP and the Executive Board wish to maintain core capacities in countries where activities are supported through non-core activities. The size of the share of the UNDP office infrastructure that should be supported through UNDP core resources is determined by GLOC and, ultimately, by graduation levels.

73. The Administrator invites the Executive Board to review the actions to be taken with regard to cost-recovery and to support the continued efforts of UNDP to streamline the financial management of all UNDP resources.

Annex I

OVERVIEW OF EXECUTIVE BOARD LEGISLATION REGARDING NON-CORE FUNDING AND COST-RECOVERY

A. Excerpt from relevant legislation relating to resources

Governing Council decision 90/14. Elements of a funding strategy for the United Nations Development Programme

3. Emphasizes the primary importance attached to funding through core resources and at the same time recognizes the value of non-core resources, provided that they are designed to serve as a means of ensuring additional resource flows and that the programmes and projects financed through such resources are coherently and effectively integrated in the technical co-operation programmes of the country, appropriately and within the mandate of the United Nations Development Programme and the technical co-operation programmes of the United Nations system; are activities in which the United Nations Development Programme has a comparative advantage; and are in accordance with national priorities;

7. Calls on the Administrator to explore ... the concept of an expanded country programme - based on a United Nations Development Programme-assisted government assessment of technical assistance needs - part of which will be financed from the United Nations Development Programme core funds while, for the balance, seeking the required non-core financing either from bilateral or multilateral sources;

8. Encourages the Administrator to continue his efforts to develop such additional non-core avenues, within the framework of the country programme, inter alia, through increased cost-sharing and government counterpart contributions while taking due account of the neutrality and universality of the Programme;

Executive Board decision 95/23. Successor programming arrangements

9. Also recognizes the importance of non-core resources, including cost-sharing and non-traditional sources of financing, as a mechanism to enhance the capacity and supplement the means of the United Nations Development Programme to achieve the goals and priorities as specified in decision 94/14;

Executive Board decision 97/15. Change management

9. Emphasizes the importance of core resources as the foundation of the United Nations Development Programme resource base;

10. Stresses that, in pursuing resource mobilization at the request of programme countries, United Nations Development Programme country offices should not compromise their primary role of programme delivery and that such resources

raised be used for programmes in accordance with country priorities and be included under an approved country co-operation framework;

General Assembly resolution 47/199. Triennial policy review of operational activities for development within the United Nations development system

Stressing also that the fundamental characteristics of the operational activities of the United Nations system should be, inter alia, their universal, voluntary and grant nature, neutrality and multilateralism, and the ability to respond to the needs of the developing countries in a flexible manner, and that the operational activities of the United Nations system are carried out for the benefit of the developing countries, at the request of those countries and in accordance with their own policies and priorities for development, (preambular paragraph 6)

Reaffirming that the operational activities for development within the United Nations system have a critical and unique role to play in enabling developing countries to take a lead role in the management of their own development process, (preambular paragraph 7)

3. Stresses the need for a substantial increase in resources for operational activities for development on a predictable, continuous and assured basis, commensurate with the increasing needs of developing countries;

General Assembly resolution 50/227. Further measures for the restructuring and revitalization of the United Nations in the economic, social and related fields

Annex I, paragraph 4

The fundamental characteristics of the operational activities of the United Nations system should be, inter alia, their universal, voluntary and grant nature, their neutrality and their multilateralism, as well as their ability to respond to the needs of developing countries in a flexible manner. The operational activities of the United Nations system should be carried out for the benefit of the developing countries, at the request of those countries and in accordance with their own policies and priorities for development.

Annex I, paragraph 12

The governing bodies of each programme and fund coordinated by the Economic and Social Council ... shall adopt, in the context of their programme arrangements and financial plans, a specific and realistic target for core resources, ... The importance of non-core resources as a mechanism to enhance the capacity of the United Nations development system and to supplement the means available for operational activities for development is also recognized.

B. Excerpts from relevant legislation relating to cost-recovery

Governing Council decision 77/31. Financial outlook for 1977-1981

Paragraph 6 (f). Countries participating in cost-sharing should, as appropriate, and distinguishing among different sources of financing, reimburse UNDP for any additional administrative costs resulting from their participation in the scheme or make provision for the necessary assistance through an administrative support project charged to country programme costs;

Governing Council decision 79/35. Cost-sharing arrangements

5. Calls upon Governments participating in cost-sharing activities in excess of 25 per cent of the established IPF, to increase substantially their contribution in support of UNDP local office costs in their respective countries;

Governing Council decision 82/18. Increasing host Government contributions for UNDP field offices

3. Takes note of the intention of the Administrator to make available to the cost-sharing programmes the interest earned on cost-sharing balances for the purposes of financing non-core support costs relating to the respective programmes;

Annex II

MECHANISMS OF COST-RECOVERY AND DISTRIBUTION

The general mechanisms that are in place for cost recovery are described briefly below.

Cost-sharing

There are two ways by which UNDP recovers additional, incremental costs of managing and administering cost-sharing contributions over and above agency support costs:

(a) A direct charge of a flat fee as incorporated in the cost-sharing agreement, presently in the range of between 3 to 5 per cent;

(b) Utilizing the interest earned on cost-sharing cash balances.

The most common approach is through a direct charge of a fee in advance of activities. This approach is followed to ensure reimbursement for costs in a timely and predictable manner. It has almost fully replaced the approach whereby the interest earned on cost-sharing cash balances is applied towards covering costs.

Trust funds

Trust funds are being charged a flat fee over and above agency support costs as incorporated in the trust fund agreement. The fee presently ranges between 3 and 5 per cent.

Establishment of fees

The Administrator is guided by a number of principles in determining the appropriate methodology for determining additional requirements and for setting and negotiating fees. The methodology must include a projection of the incremental workload, in particular by those who are most involved in actually providing the support. The sophistication of the methodology must, however, be proportionate to the results to be obtained and must be fair and equitable. Furthermore, the methodology must have an element of stability and predictability over time, in particular from the point of view of those who make cost-sharing and trust fund resources available. Lastly, any approach must be flexible enough to take into account the broad range of conditions that characterize UNDP operations and capacities at any point in time and at any location, in particular as far as country offices are concerned.

Management and distribution

All income generated through the above mechanisms is managed and accounted for separately as Other or Extrabudgetary resources. The use of these resources is fully disclosed as part of the organization's financial reports and biennial budget presentations. The day-to-day management of the resources follows the

same procedures and criteria as those relating to the use of the organization's core resources for programme support, management and administration.

The income generated is generally allocated to support areas as shown in the table below.

Activities	For support provided by			
	Country offices	Regional bureaux	Other[a]	Central administrative services
	(Percentage)			
Country	80	15		5
Regional	47.5	47.5		5
Global/ interregional			95	5

[a] Units in charge of Headquarters managed funds (BDP, etc.).

Special examples

UNDP is one of the implementing agents for the Global Environment Facility (GEF) and the Montreal Protocol. All activities undertaken are subject to review and approval by the GEF Council and the Executive Committee of the Montreal Protocol, both of which are supported by an independent secretariat. Special implementation units were established in UNDP and are fully financed from GEF and Montreal Protocol resources, including a number of GEF programme specialists who are assigned to regional bureaux on an out posted basis. Both funds reimburse UNDP separately for the central services that they receive in areas such as finance, administration, and human resources management. These costs are determined on the basis of a regular workload study by the servicing units concerned. Further, the funds make financial resources available to country offices when the support provided by them results in additional costs. The funds had a combined expenditure in 1996 of $77.4 million.

In the case of Mozambique, cost-sharing and trust-fund activities relating to peace-building and electoral processes have been significant over the last number of years ($73.5 million over the 1994-1996 period). Special reviews were carried out to assess the additional workload associated with supporting the programmes. In full consultations with contributors, costs were covered by a 5 per cent charge to the contributions in addition to a specific amount.

In the case of the Programme for Assistance to the Palestinian People, all costs associated with the support are covered by a charge of 8 per cent. As an example of the outcome of regular reviews associated with workload, this charge was increased recently from 6 per cent.

Annex III

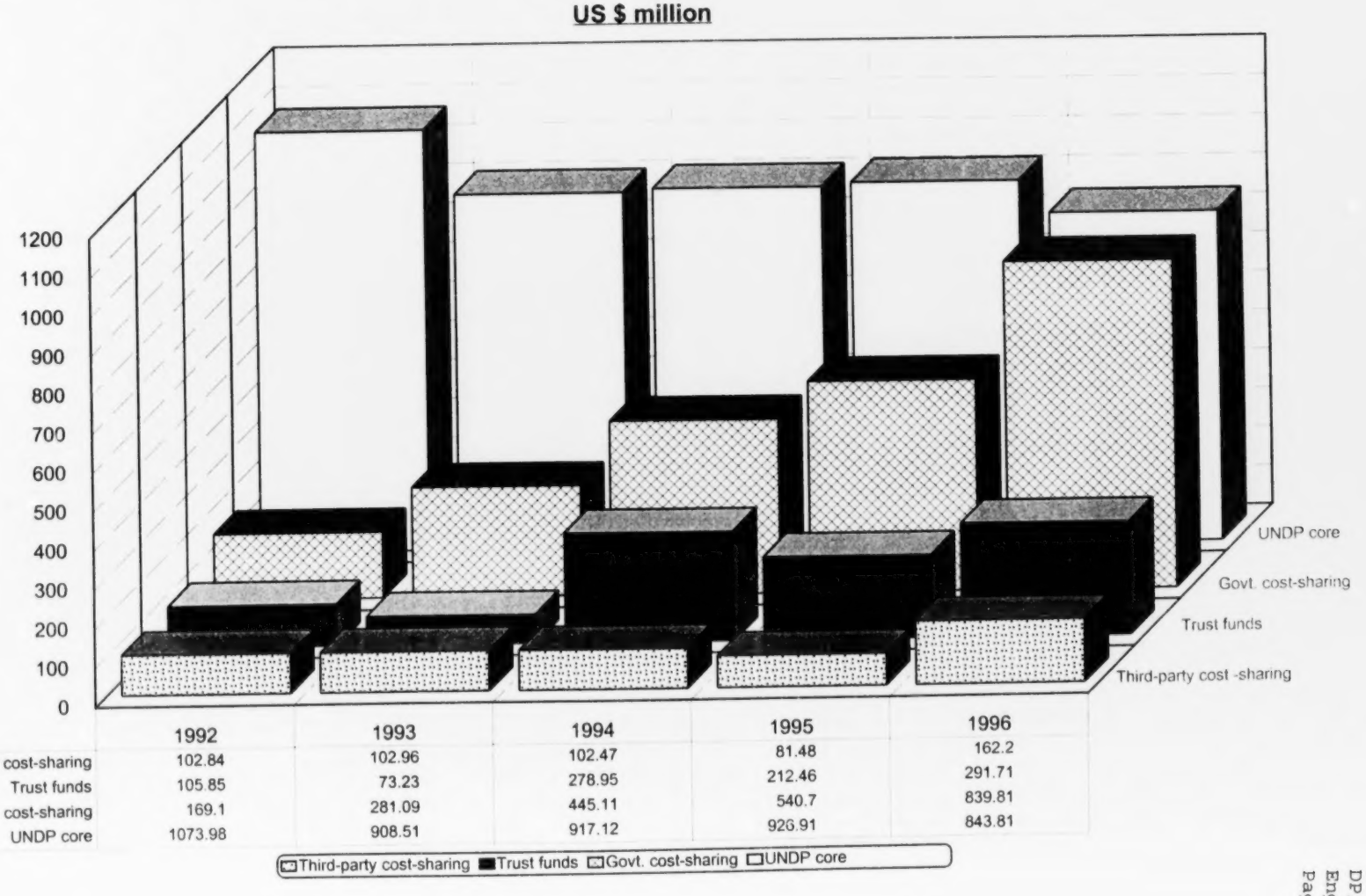
STATISTICAL OVERVIEW OF NON-CORE CONTRIBUTIONS

Abbreviations

Owing to space constraints, the following abbreviations were used in the graphs in the annex.

Asia	Asia and the Pacific
DOF	Division of Finance
Europe	Europe and the Commonwealth of Independent States
Govt.	Government
Int.	Interregional
Latin America	Latin America and the Caribbean
PAPP	Programme of Assistance to the Palestine People

Figure 1. Contributions to UNDP by sources of funds 1/



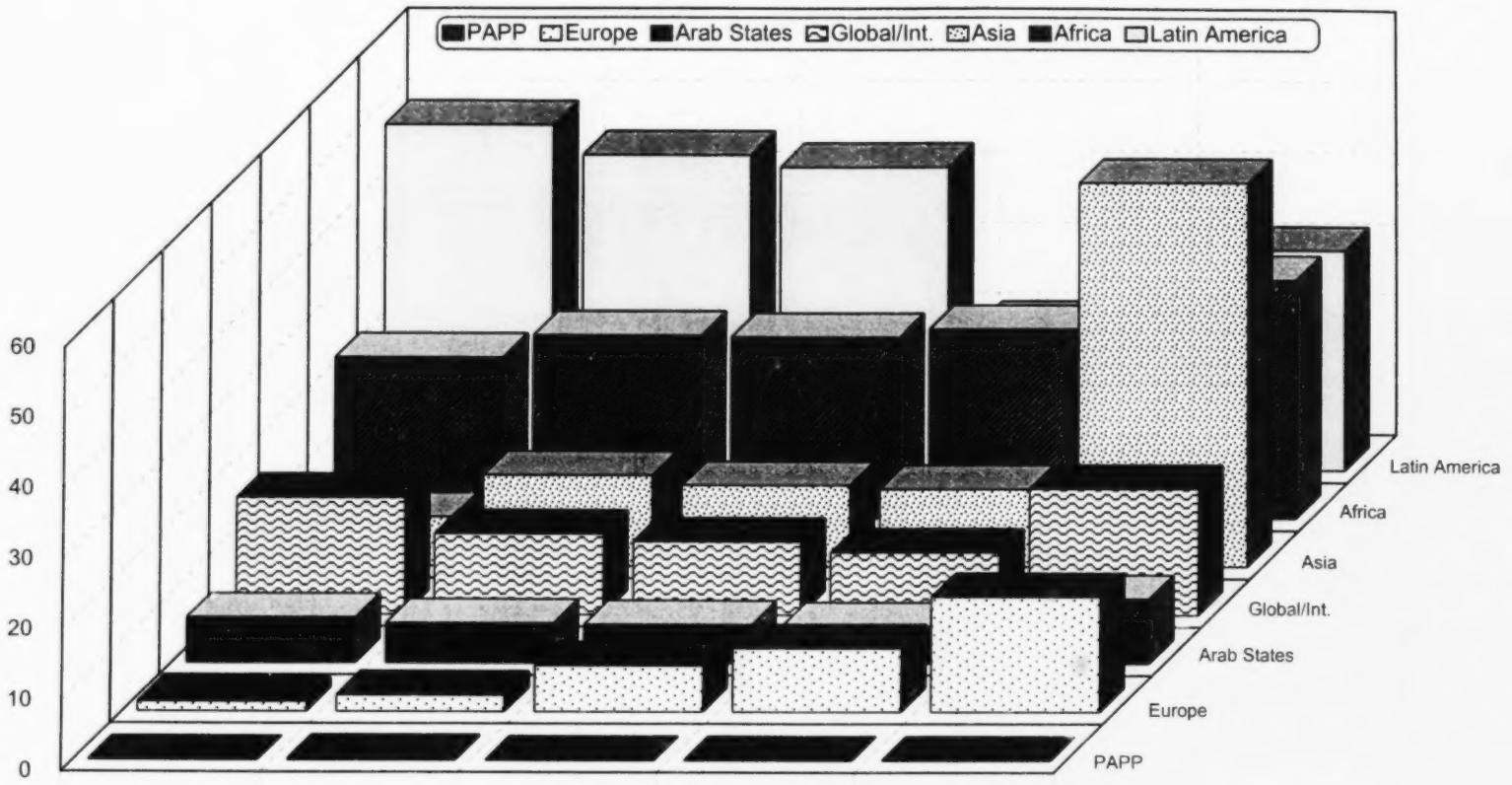
	1992	1993	1994	1995	1996
Third-party cost-sharing	102.84	102.96	102.47	81.48	162.2
Trust funds	105.85	73.23	278.95	212.46	291.71
Govt. cost-sharing	169.1	281.09	445.11	540.7	839.81
UNDP core	1073.98	908.51	917.12	926.91	843.81

1/ the figures cover contributions for the calendar year, irrespective of year in which they were actually received by UNDP.

Source: DOF 447B2 of December 1996 and 30 September 1997

Figure 2. Third-party cost-sharing by region, 1992-1996

US $ millions

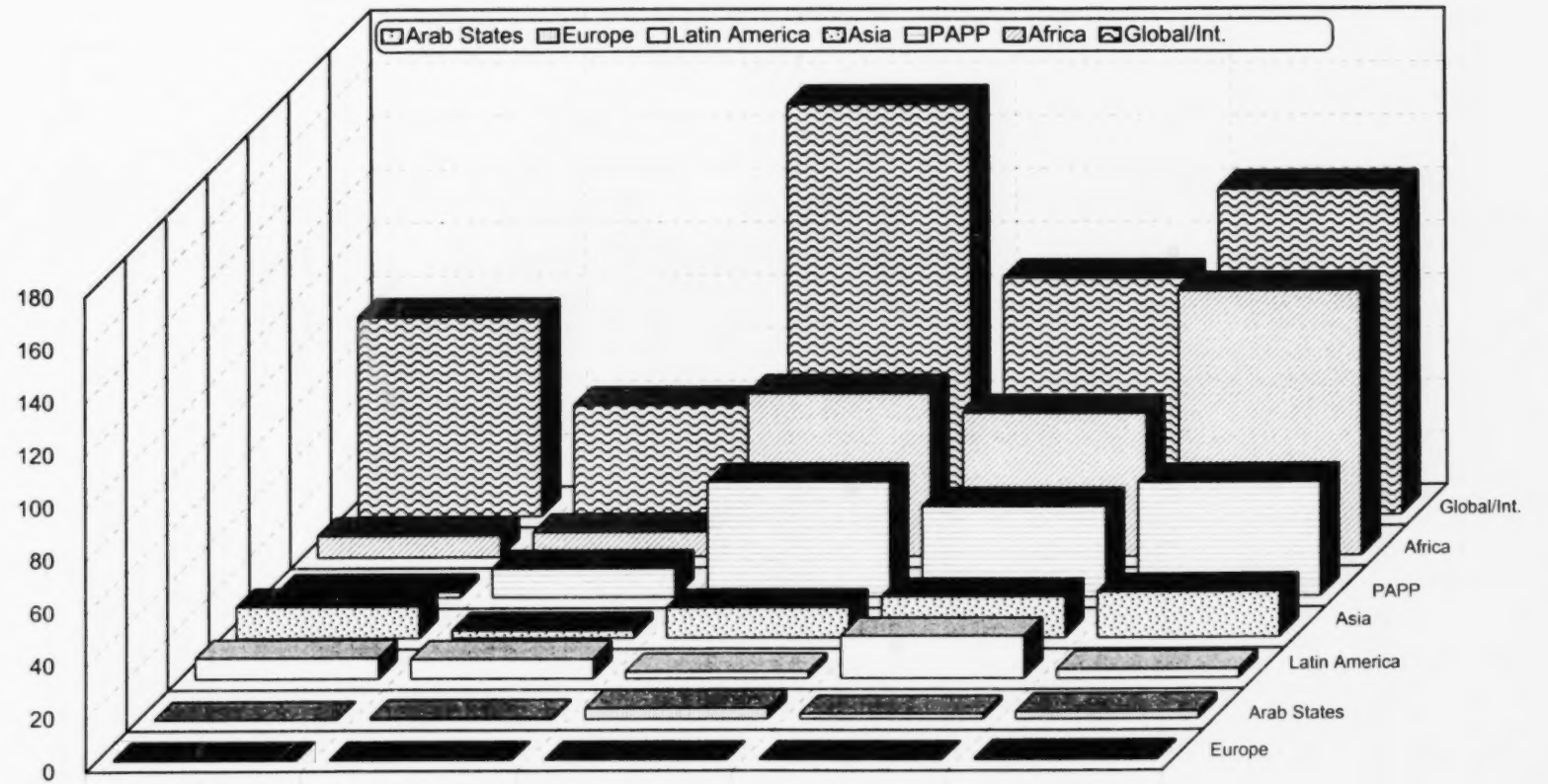


	1992	1993	1994	1995	1996
PAPP	0	0.19	0	0	0
Europe	1.39	2.31	6.52	8.96	16.27
Arab States	6.41	5.63	5.48	5.24	9.15
Global/Int	16.54	11.4	10.38	8.87	17.87
Asia	6.94	12.89	11.51	10.99	54.37
Africa	22.73	25.95	25.69	26.85	33.85
Latin America	48.79	44.58	42.89	20.58	31.21

Source: DOF (December 1996 and 30 September 1997).

Figure 3. Trust funds, by region, 1992-1996

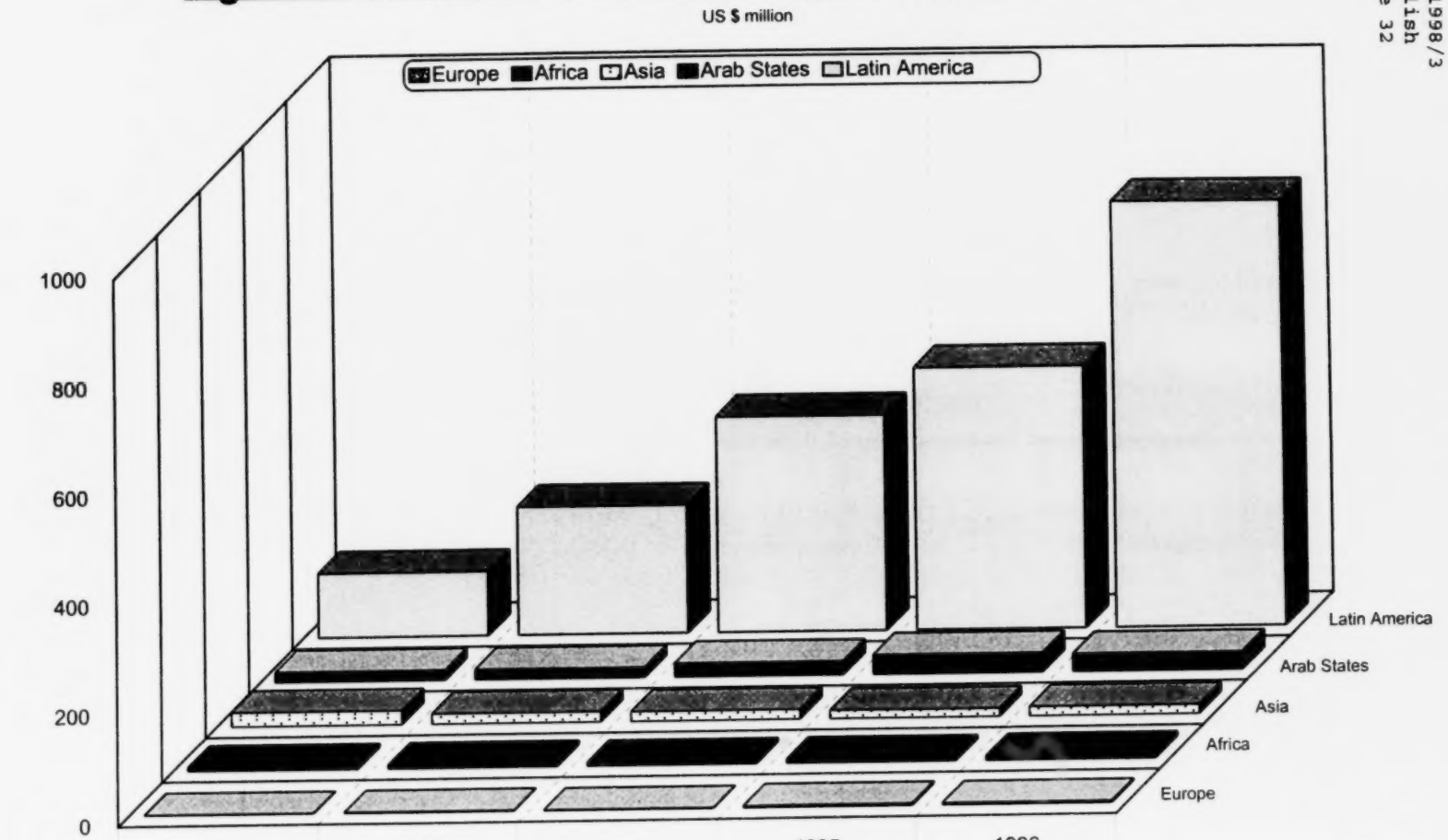
US $ millions



	1992	1993	1994	1995	1996
Arab States	0	0	0	0.15	0.67
Europe	0	0.58	4.12	1.95	2.8
Latin America	7.98	7.49	2.57	16.09	3.47
Asia	12	2.88	11.38	15.53	17.29
PAPP	2.05	10.91	43.62	34.4	43.47
Africa	8.2	9.37	61.78	54.29	100.59
Global/Int.	75.63	42.01	155.47	90.04	123.43

Source: DOF (December 1996 and 30 September 1997).

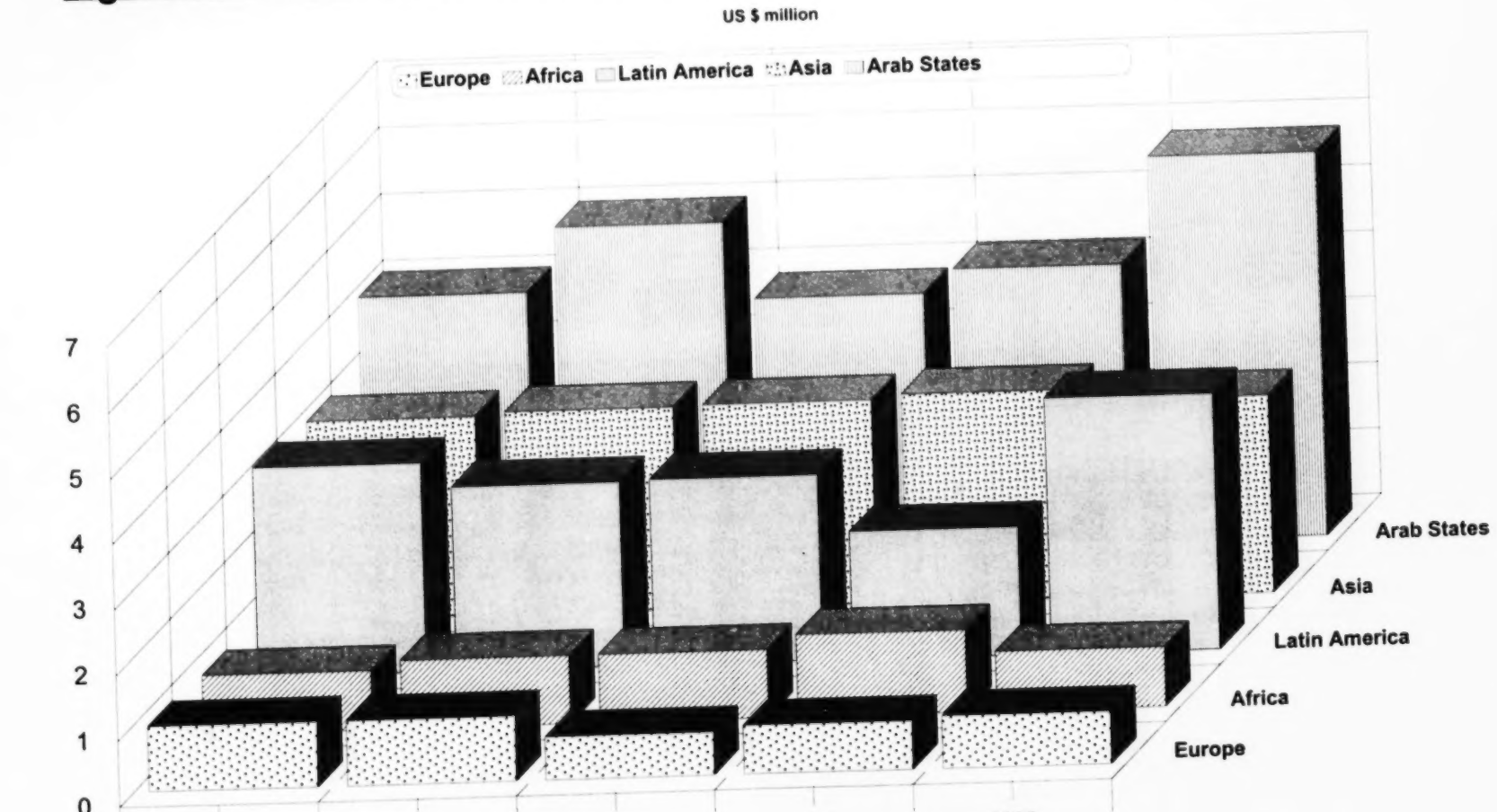
Figure 4. Government cost-sharing by region, 1992-1996



	1992	1993	1994	1995	1996
Europe	0.47	1.57	1.29	3.27	3.27
Africa	6.85	7.21	6.48	6.99	8.8
Asia	25.77	18.81	17.65	15	16.72
Arab States	18.48	18.46	25	35.45	32.77
Latin America	117.57	235.05	394.69	479.98	778.24

Source: DOF (December 1996 and 30 September 1997)

Figure 5. Government contributions to UNDP local office costs, 1992-1996

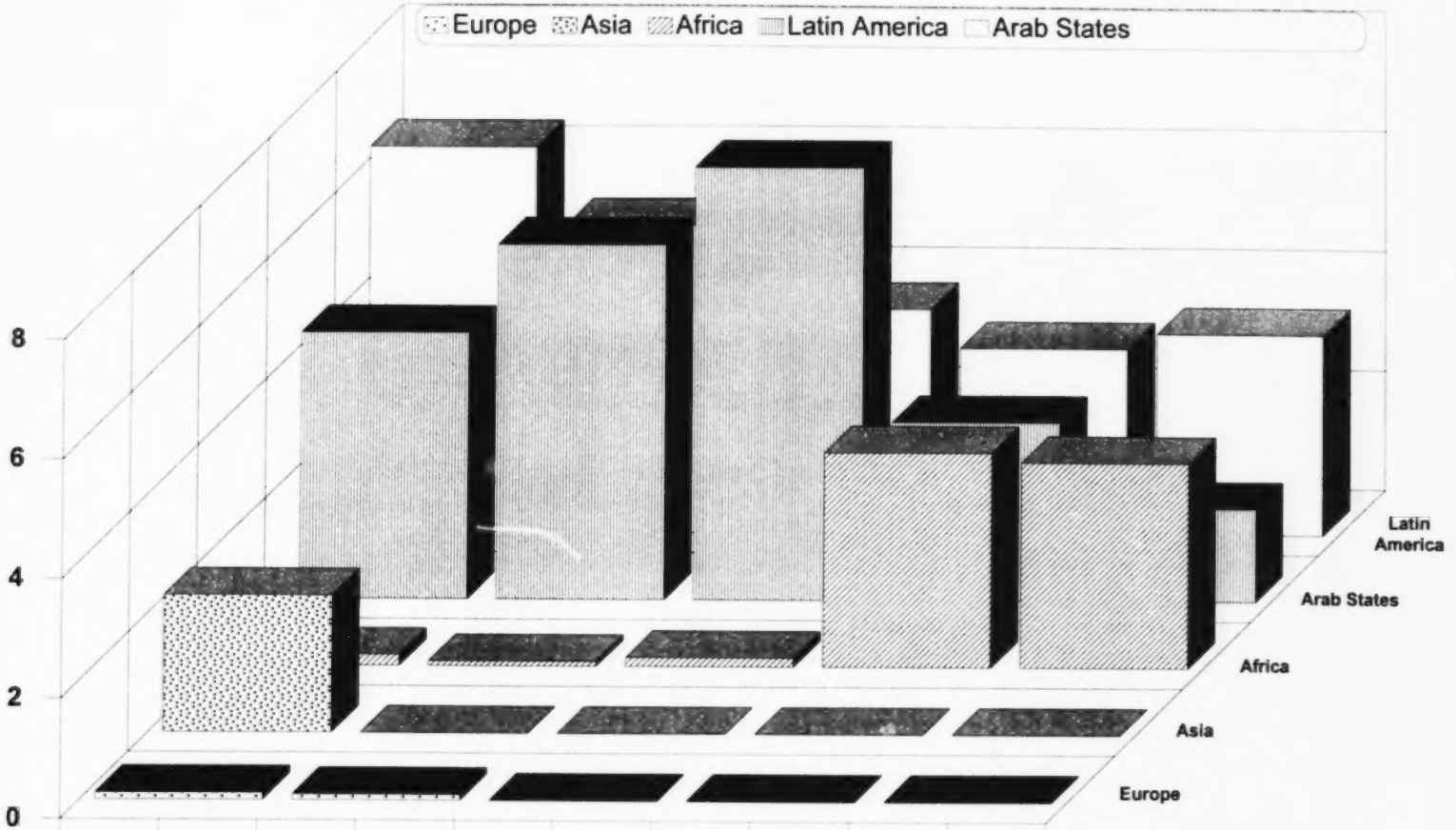


	1992	1993	1994	1995	1996
Europe	0.98	0.98	0.65	0.73	0.79
Africa	0.89	1.03	1.03	1.24	0.9
Latin America	3.19	2.81	2.83	1.95	3.89
Asia	3.03	3.08	3.1	3.17	3
Arab States	4.05	5.02	3.85	4.21	5.82

Source: DOF (December 1996 and 30 September 1997).

Figure 6. Governments cash counterpart contributions, 1992-1996

US $ million



	1992	1993	1994	1995	1996
Europe	0.11	0.09	0.001	0	0
Asia	2.28	0	0	0	0
Africa	0.18	0.08	0.15	3.58	3.42
Latin America	4.45	5.93	7.21	2.97	1.55
Arab States	6.43	5.13	3.74	3.09	3.35

Source: DOF (December 1996 and 30 September 1997).